G & B AUTOMATED EQUIPMENT LIMITED

ANNUAL REPORT
1972

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G & B AUTOMATED EQUIPMENT LIMITED

OFFICERS AND DIRECTORS

ROBERT E. BUDAI, *Managing Director and Director*	Toronto, Ontario
PHILIP H. DAVIES, *President and Director*	Toronto, Ontario
FREDERICK D. O'CONNOR, *Secretary and Director*	Toronto, Ontario
THOMAS P. KALMAN, *Director*	Toronto, Ontario
DR. FRANCIS E. KRISTOF, *Director*	Westmount, P.Q.
ERIC B. RUSSELL, *Director*	Toronto, Ontario
PHILIP R. MCDOWELL, *Vice-President, Engineering*	Toronto, Ontario
RUDOLPH G. KOSTER, *Vice-President, Manufacturing*	Toronto, Ontario
PETER T. CLARK, *Vice-President, Marketing*	Nobleton, Ontario
NORMAN ANDERSON, *Comptroller*	Toronto, Ontario

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TRANSFER AGENT

THE ROYAL TRUST COMPANY

Royal Trust Tower, Toronto Dominion Centre, Toronto, Ontario

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HEAD OFFICE . . . . . . 580 Supertest Road, Downsview, Ontario

G & B AUTOMATED EQUIPMENT LIMITED

REPORT OF THE DIRECTORS

To the Shareholders:

We are pleased to report sales of the Company's products of $1,850,726 in 1972. This is a record high for the Company and is 126% over 1971 sales. A break-down by product line shows $970,000 for steel conditioning systems, $667,000 for abrasive machinery and the balance of $213,000 from the turnkey and technical consulting division.

Our sales and overall financial position for 1972 show a great improvement over 1971, however, management feels the year-end results may not fully convey the progress made by your Company in 1972 or its true potential. To put these results in perspective, one must take the following factors into account.

By the end of 1971, the Company had completed a major research and development programme at a cost of over $900,000 to develop its new line of automated steel conditioning equipment. The steel industry was extremely interested in this equipment but it naturally looked for a record of performance under normal operating conditions. To encourage early sales acceptance, realistic pricing of the equipment was required. This was so successful that 8 of the new grinders and material handling systems were sold and installed in 1972. This enabled the Company to establish the presence of the equipment in the steel industry, however, it did not provide profit margins which were satisfactory to management. This is being remedied by the realization of further sales of this equipment at suitable prices.

A further factor to be noted is that, in keeping with the Company's policy regarding research and development costs, in 1972 your Company charged an amount of $44,226 to operating expenses, being costs incurred for engineering and equipment modifications to the grinders.

In 1972, the Company's expanded operations were facilitated by financing arranged through the Company's bankers. To ensure that this year's anticipated expansion in sales will be realized, negotiations were carried out with a federal government agency which has offered the Company insurance for additional borrowings which should be sufficient for its needs.

To December 31, 1971, a total of $261,050 had been received under the federal government's PAIT I programme to assist in the development of the steel conditioning equipment. The agreement with the Government required this amount plus accrued interest to be repayable upon successful completion and sale of the equipment. By March 31, 1973, the amount owed including interest was $318,564.03. We are pleased to report that an agreement has been completed with the Government whereby repayment of this amount is deferred for 5 years and thereafter is repayable in 5 annual installments. Interest is payable annually on the total outstanding as at March 31, 1973.

The first 5 months of 1973 has seen a continuing demand for our products by the steel and abrasive industries. This demand is concentrated mainly in North America and Europe. Orders on hand to the end of this period totalled $1,943,524, which is a record for this period in any year of your Company's history. This includes 7 steel conditioning grinders and material handling systems having a sales value of $849,052, $700,500 for abrasives equipment and the balance in turnkey and technical consulting projects.

We are also pleased to announce that the Company and Birdsboro Corporation have entered into an agreement which will substantially enhance our markets for the sale of our steel conditioning equipment in North America, and in this connection, a new U.S. subsidiary company, G & B—Birdsboro Corporation, has been formed. Birdsboro Corporation is a major supplier of equipment to the steel industry.

During the year, the Company's efforts to expand the European division gathered impetus. Your managing Director headed this drive and we are pleased to report on the excellent sales response. The Company is in an excellent position to benefit from the major capital expenditure programmes which industry has initiated in North America and Europe since it has no major research and development undertaking on hand and can capitalize on the established product line. A project of major proportions is now being undertaken in western Europe to design, supervise and consult on the completion of a large plant installation. This project and contracts related thereto have a value of over $500,000 to the Company. A further turnkey project in Europe is also being pursued with excellent prospects of success. To date, sales orders from Europe for abrasive equipment amount to $433,000 compared to total sales of $305,000 for 1972. The acceleration in the demand in European markets is evident from these figures.

The size of the projects presently undertaken and the potential for European sales expansion under the direction of your Managing Director necessitated senior management appointments. Accordingly, the Board of Directors appointed Mr. Budai as Managing Director and Chief Executive Officer, located in Europe directly in charge of European operations and Mr. Davies joined the company as President and Chief Operating Officer based in Toronto.

We wish to thank the Company's loyal and devoted staff for the tremendous contribution they have made in all areas. We know the Company can count on their continued support. We are confident that our staff's engineering, manufacturing and marketing skills will ensure that the Company's full potential will be attained.

R. E. Budai
Managing Director

Philip H. Davies
President

G & B AUTOMATED

BALANCE SHEET AS

ASSETS

	1972	1971
	$	$
CURRENT ASSETS		
Cash and short-term deposits	56,934	194,253
Accounts receivable (note 1)—		
Trade	366,741	305,589
Government	66,847	75,435
Accrued income on uncompleted contracts (note 2)	174,957	—
Inventories—at the lower of cost or net realizable value (notes 1 and 2)	257,526	289,922
Prepaid expenses	15,994	16,040
	938,999	881,239
FIXED ASSETS—at cost, less accumulated depreciation and amortization (note 3)	194,224	202,879
OTHER ASSETS		
Patents—at cost, less amortization	13,532	—
	1,146,755	1,084,118

Signed on behalf of the Board
P. H. DAVIES, Director
F. D. O'CONNOR, Director

AUDITORS' REPORT

We have examined the balance sheet of G & B Aut
statements of earnings, deficit and source and use of w
cluded a general review of the accounting procedures
evidence as we considered necessary in the circumstanc

In our opinion these financial statements present fa
1972 and the results of its operations and the source an
dance with generally accepted accounting principles w
method of accounting for production contracts as descri
a basis consistent with that of the preceding year.

Toronto, Canada, May 9, 1973

QUIPMENT LIMITED

DECEMBER 31, 1972

LIABILITIES

	1972	1971
	$	$
CURRENT LIABILITIES		
Bank advances—secured (note 1)	109,457	—
Accounts payable and accrued liabilities	364,554	254,778
Advance payments on contracts	35,500	118,380
Government of Canada—PEMD assistance program (note 4)	34,479	—
Current portion of long-term debt	15,015	38,368
	559,005	411,526
LONG-TERM LIABILITIES		
Government of Canada—PAIT assistance program (note 5)	397,896	398,591
Less: Current portion	15,015	38,368
	382,881	360,223
5% serial convertible debentures (note 7)	300,000	300,000
	682,881	660,223
	1,241,886	1,071,749

SHAREHOLDERS' EQUITY

	1972	1971
CAPITAL STOCK (note 8)		
Authorized— 1,000,000 common shares without par value		
Issued and fully paid— 564,100 common shares (1971-563,100 shares)	1,115,675	1,114,095
DEFICIT	1,210,806	1,101,726
	(95,131)	12,369
	1,146,755	1,084,118

THE SHAREHOLDERS

ed Equipment Limited as at December 31, 1972 and the
g capital for the year then ended. Our examination in-
such tests of accounting records and other supporting

he financial position of the company as at December 31,
of its working capital for the year then ended, in accor-
except for the change to the percentage-of-completion
n note 2 to the financial statements, have been applied on

COOPERS & LYBRAND
Chartered Accountants

Camcorp

G&B AUTOMATED EQUIPMENT LIMITED

STATEMENT OF DEFICIT

For the Year Ended December 31, 1972

	1972	1971
	$	$
DEFICIT—BEGINNING OF YEAR	1,101,726	344,431
Adjustment resulting from change in accounting for production contracts (note 2)	(22,582)	—
	1,079,144	344,431
Loss for the year	131,662	757,295
DEFICIT—END OF YEAR	1,210,806	1,101,726

STATEMENT OF EARNINGS

For the Year Ended December 31, 1972

	1972	1971
	$	$
SALES (note 2)	1,850,726	819,549
COST OF SALES	1,574,922	804,054
GROSS PROFIT	275,804	15,495
EXPENSES		
Selling	144,549	158,601
Administrative	191,009	191,870
	335,558	350,471
LOSS BEFORE OTHER EXPENSES	59,754	334,976
OTHER EXPENSES		
Research and development	44,226	395,490
Less: Government research grants—net	12,208	146,865
	32,018	248,625
Loss on return of machine sold in 1969	—	114,192
Interest—net	47,643	59,502
Other government grants	(7,753)	—
	71,908	422,319
LOSS FOR THE YEAR	131,662	757,295
LOSS PER SHARE	.23	1.34

G&B AUTOMATED EQUIPMENT LIMITED

STATEMENT OF SOURCE AND USE OF WORKING CAPITAL

For the year ended December 31, 1972

	1972	1971
	$	$
SOURCE OF WORKING CAPITAL		
Proceeds on sale of common shares	1,580	—
USE OF WORKING CAPITAL		
Loss for the year	131,662	757,295
Less: Items not affecting working capital—		
Depreciation and amortization	52,937	14,432
Interest on Government of Canada loan	27,673	52,041
Non-current portion of loss on return of machine sold in 1969	—	113,915
	80,610	180,388
Funds expended on operations	51,052	576,907
Additions to fixed assets	43,437	18,729
Reduction in long-term portion of Government of Canada loan	5,015	38,368
Cost of patents	14,377	—
	113,881	634,004
DECREASE IN WORKING CAPITAL	112,301	634,004
WORKING CAPITAL—BEGINNING OF YEAR	469,713	1,103,717
Adjustment resulting from change in accounting for production contracts (note 2)	22,582	—
	492,295	1,103,717
WORKING CAPITAL—END OF YEAR	379,994	469,713

G&B AUTOMATED EQUIPMENT LIMITED

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 1972

1. Bank Advances

   Accounts receivable and inventories have been pledged as security for the bank advances.

2. Change in Method of Accounting for Contracts

   In 1972 the company changed its basis of accounting for income on production contracts from the completed-contract method to the percentage-of-completion method. Under the former method sales, cost of sales and gross profits were recorded only when the contract was completed. Under the present method sales, cost of sales and gross profits are recorded as the contract progresses to completion. Full provision continues to be made for losses, if any, as they become evident.

   As a result of this change the deficit as at January 1, 1972 and the loss for the current year have been reduced by \$22,582 and \$17,232 respectively. 1971 results have not been restated on the new basis because adequate information is not available.

3. Fixed Assets

   The fixed assets and related accumulated depreciation and amortization are classified as follows:

	1972			1971
	Cost	Accumulated depreciation and amortization	Net	Net
	$	$	$	$
Billet grinder test equipment (note 6)	131,012	26,202	104,810	131,012
Plant machinery and equipment	87,013	54,276	32,737	28,653
Leasehold improvements	34,514	9,204	25,310	27,611
Office furniture and equipment	31,298	17,233	14,065	9,636
Automotive equipment	31,724	18,596	13,128	5,967
Films	10,436	6,262	4,174	—
	325,997	131,773	194,224	202,879

4. PEMD Loan From the Government of Canada

   The company has claimed \$48,185 and received \$34,479 to December 31, 1972 from the federal government under the Programme for Export Market Development (PEMD) to assist in the promotion of turnkey projects in Spain and Hungary. The amount received has been reflected as a liability of the company at December 31, 1972. Under the terms of the program, these funds are repayable if the company obtains a contract for the provision of goods or services under the program. The company has obtained a contract for completion of a turnkey project in Spain and expects to negotiate a contract for a turnkey project in Hungary.

5. PAIT Loans From the Government of Canada

   The company has received assistance from the federal government under the Program for the Advancement of Industrial Technology (PAIT) to assist in the development of the four-station finishing machine and the billet grinder. These loans, together with accrued interest, amounted to \$82,152 and \$315,744 respectively at December 31, 1972.

   A repayment agreement has been signed with respect to the four-station finishing machine which requires the repayment of principal and interest at 6-13/16% based on the proceeds of sales to commercial customers.

   Subsequent to December 31, 1972, a repayment agreement was negotiated with respect to the billet grinder which will require the repayment of principal and accrued interest to March 31, 1973 at 6-7/16% in five equal annual instalments commencing April 1, 1978. Interest on the total liability at March 31, 1973 will be paid semi-annually on a current basis.

G & B AUTOMATED EQUIPMENT LIMITED

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 1972

6. CONTINGENT LIABILITY

The company has claimed $225,000 and received $183,066 to December 31, 1972 from the federal government under the revised PAIT program in the form of a direct grant to assist further in the development of the billet grinder. Under the terms of the agreement the company may be required, at the discretion of the Minister, to repay up to one half of the proceeds derived from any future sale of the billet grinder test equipment which was developed under the program.

7. 5% SERIAL CONVERTIBLE DEBENTURES

The 5% serial convertible debentures are due in amounts of $100,000 in each of the years 1974, 1977 and 1980. The debentures are convertible into 27,273 common shares which number may be increased in accordance with antidilution provisions of the trust indenture.

8. CAPITAL STOCK

(a) At December 31, 1972 the following shares of the company were reserved for issue:

	1972	1971
5% serial convertible debentures (note 7)	27,273	27,273
Stock options	70,000	24,900
Share warrants	36,000	36,000
	133,273	88,173

(b) Stock options have been granted on 71,000 common shares to certain directors, officers and employees of the company for varying periods terminating in 1977 at prices ranging from $1.58 to $7.88 per share.

During the year, 1,000 shares were issued under the stock option plan for a total consideration of $1,580. Options to purchase 500 shares were cancelled during the year on termination of the employment of one option holder.

Options are still outstanding on 69,500 common shares.

(c) There are warrants outstanding which entitle the holders to purchase 36,000 common shares of the company at a price of $12 per share. There is provision for adjusting the number of shares which may be purchased if common shares are issued to other than warrant or debenture holders at a price of less than $12 per share. These warrants may be exercised at any time to December 31, 1975.

9. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

The aggregate direct remuneration paid to directors and senior officers as defined by the Business Corporations Act, 1970 was $193,668 in 1972 and $165,225 in 1971.

10. LEASE COMMITMENTS

The company carries on its operations in leased premises and has entered into various leases which involve a minimum annual rental of $38,900 to December 31, 1983.